News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $580.9-MILLION SURPLUS; URGES CONTINUED FISCAL DISCIPLINE TO PROTECT CT AGAINST FUTURE ECONOMIC UNCERTAINTY

Comptroller Kevin Lembo today issued his latest financial and economic outlook, projecting the state is on track to end the 2019 fiscal year with a $580.9-million surplus, though he warned that Connecticut must adhere to its commitment to fiscal discipline so that the state's reserves will be adequately prepared to protect against future economic uncertainty.

In a letter to Gov. Ned Lamont, Lembo said that his latest projection aligns with the state Office of Policy and Management (OPM)'s projection and reflects the latest consensus revenue forecast issued by OPM and the legislature's nonpartisan Office of Fiscal Analysis (OFA) this week.

The latest projection reflects a $14.3 million net revenue improvement over OPM's April 22 estimate. Key changes from the OPM-OFA consensus forecast this week included a $100-million increase in the withholding portion of the personal income tax, a reduction in the estimated and finals portion of the income tax and lower federal grant revenue. The pass-through entity tax, corporation tax and inheritance and estate tax were also revised upward with no changes in projected spending.

"This surplus, and an increasingly healthy Budget Reserve Fund, may signal good progress – but we must remember that while we cannot always control financial markets, federal trade policy and global uncertainty, we can control how we prepare for those factors as a state," Lembo said. "Our state has gone from zero financial protection just a few short years ago, exposing us to devastating tax increases and program cuts. We are finally headed to a place where we can protect against a financial and economic downturn, and that's where we need to stay focused."

A state revenue volatility cap, adopted only a few years ago, requires that revenues above a certain threshold be transferred to the state's Budget Reserve Fund (BRF). Lembo, who advocated for this measure and continues to push for a fully funded BRF, provided the following update:

- For Fiscal Year 2019, the threshold (or "volatility cap) where any additional revenue from the estimated and final income tax payments and the pass-through entity tax must be transferred to the BRF is $3.2 billion.
- If current projections are realized, an $885.5-million transfer would be made to the BRF.
- The current BRF balance is $1.2 billion.
- Addition the estimated $885.5 million transfer, plus the projected Fiscal Year 2019 surplus of $580.9 million, would bring the year-end balance of the BRF to $2.65 billion, or approximately 13.9 percent of Fiscal Year 2019 General Fund expenditures.

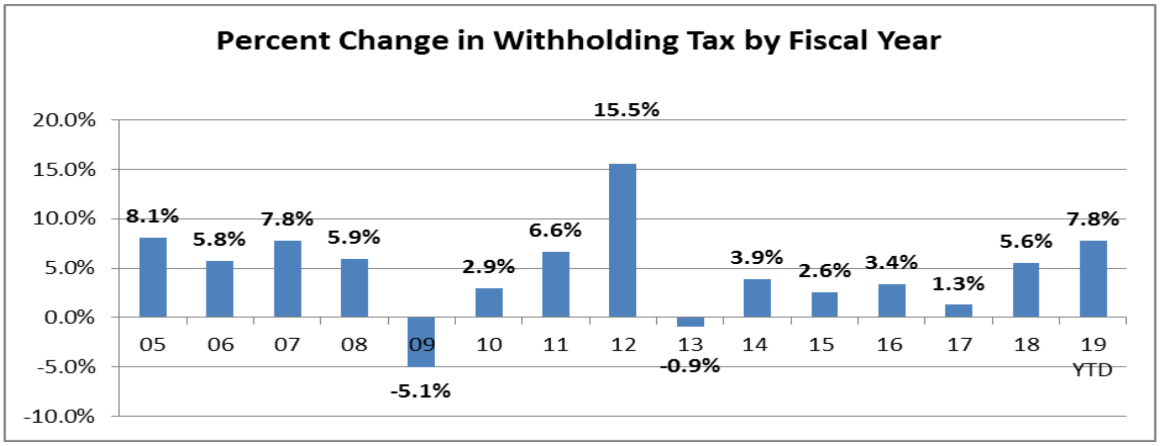
"This result, if achieved, would represent a significant improvement over the recent past and move the Budget Reserve Fund closer to the statutory target of 15 percent," Lembo said. "Connecticut's budget results are ultimately dependent upon the performance of the national and state economies."

Among this month's economic indicators, Lembo highlighted an April 16 report by Bloomberg on the 2019 U.S. State Innovation Index in which Connecticut jumped to fourth in the nation of states identified as having the most innovative state economies. The top five were California, Massachusetts, Washington, Connecticut and Maryland, while the bottom five were Alabama, Louisiana, Arkansas, West Virginia and Mississippi. The economic report below explains more on the metrics.

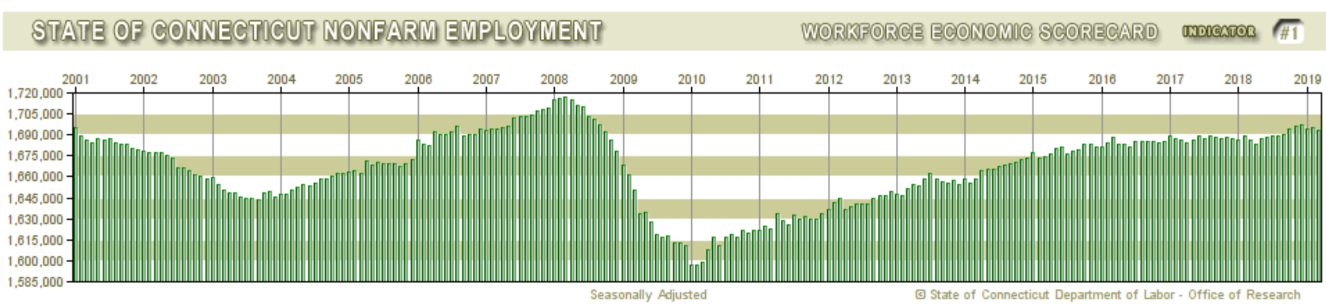
Lembo pointed to various economic indicators and trends from national and state sources that show:

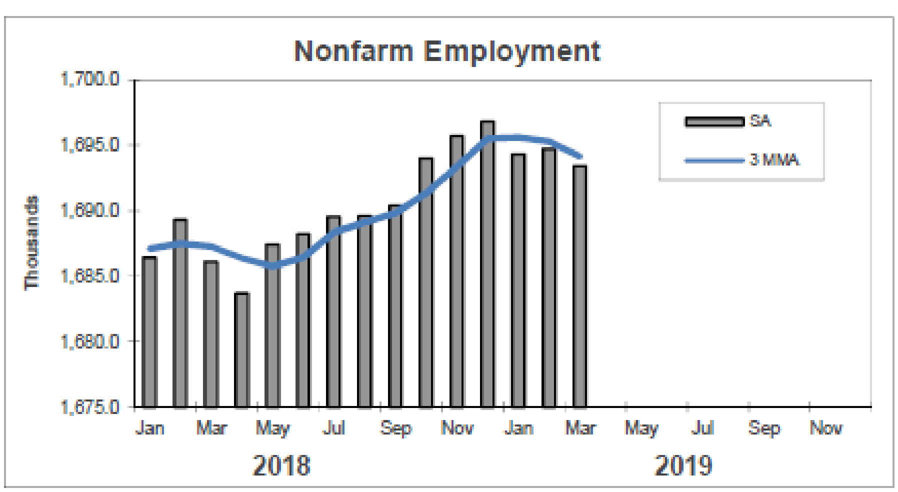
Employment

- After a solid performance in FY 2018, preliminary results for FY 2019 through March 2019 show withholding receipts grew by 7.8 percent compared with the corresponding period in the prior fiscal year. While still very strong by recent standards, this represents a slower level of growth from the earlier months of the fiscal year.



- Current estimates based on the new April 30 consensus revenue forecast have the withholding portion of the income tax growing by approximately 7.0 percent over FY 2018 realized amounts. Withholding collections to date, therefore, are in line with these projections. However, this trend will bear watching in light of the weaker employment numbers reported in the early months of 2019.
- On April 18, Connecticut DOL reported the preliminary Connecticut nonfarm job estimates for March 2019 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 1,300 net jobs in March, to a level of 1,693,400, seasonally adjusted. At the same time, February's originally-released job loss of 400 was revised upward by 800 to a gain of 400 jobs over the month. DOL noted that the March job losses have driven the three-month average job growth negative for calendar 2019.





- Over the year, DOL reported that nonagricultural employment in the state grew by 7,300 jobs on a seasonally-adjusted basis. Connecticut has now recovered 80.3 percent (96,600 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of March, the job recovery was into its 110th month and the state needed an additional 23,700 new net jobs to reach an overall

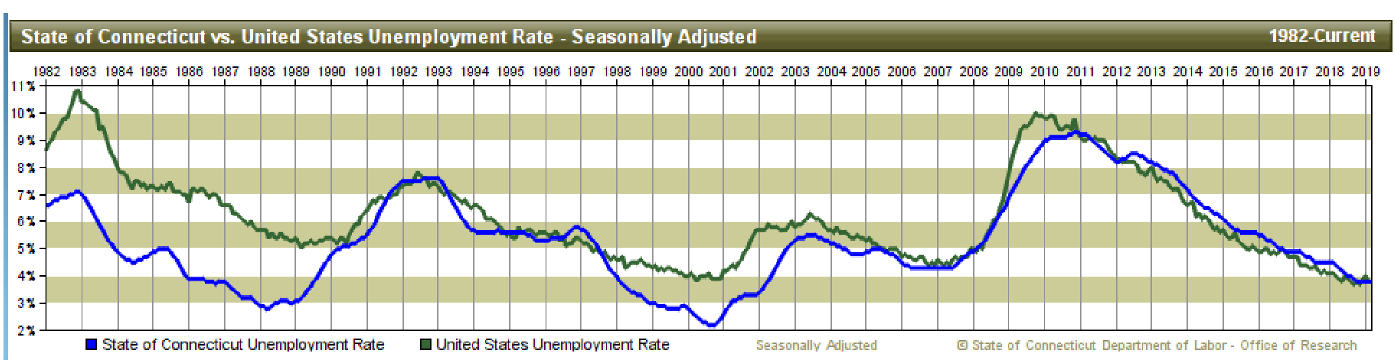
Connecticut's Recessionary Job Loss and Recovery March 2008 - March 2019

	March 2008	January 2010	March 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,693.4	-120.3	96.6	80.3%
Total Private Sector	1,457.4	1,345.4	1,456.5	-112.0	111.1	99.2%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated: April 18, 2019

employment expansion.

- Connecticut's unemployment rate stood at 3.9 percent in March, up one-tenth of a point from the revised February figure and down five-tenths of a point from a year ago when it was 4.4 percent. Nationally, the unemployment rate was 3.8 percent in March 2019, unchanged from February's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 1982.

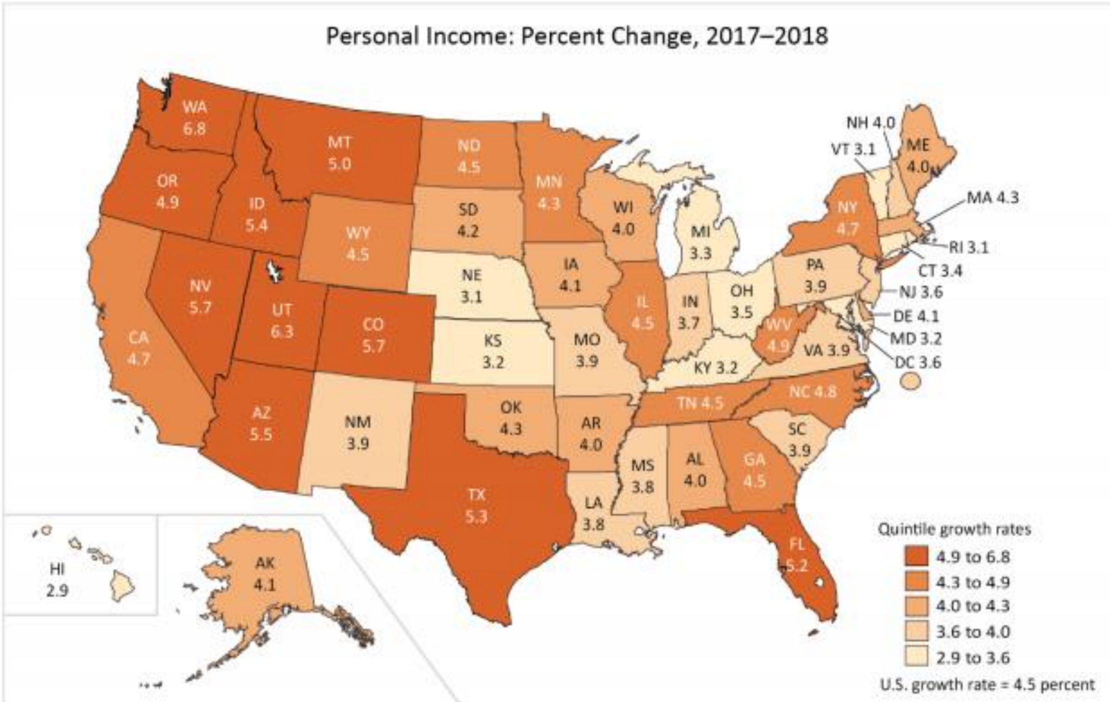


- Among the major job sectors listed below, seven experienced gains and three experienced losses in March 2019 versus March 2018 levels. Construction, information and leisure & hospitality were the fastest growing sectors in the state's labor market on a percentage basis. The professional & business services, transportation & public utilities and other services sectors experienced job losses.

Payroll Employment Trend				
Jobs in thousands				
Sector	**3/19 (P)**	**3/18**	**Gain/Loss (000's)**	**% Change**
Construction	60.7	58.2	2.5	4.3%
Manufacturing	161.5	159.8	1.7	1.1%
Transp. & Public Utilities	294.3	297.1	-2.8	-0.9%
Information	32.8	31.7	1.1	3.5%
Financial	127.4	126.2	1.2	1.0%
Prof. & Business Svc.	217.2	220.3	-3.1	-1.4%
Education & Health Svc.	337.3	334.0	3.3	1.0%
Leisure & Hospitality	160.5	156.0	4.5	2.9%
Other Services	64.3	65.3	-1.0	-1.5%
Government	236.9	236.9	0.0	0.0%
Total Connecticut Non-Farm Employment	**1,693.4**	**1,686.1**	**7.3**	**0.4%**

Wage and Salary income

- March 2019 average hourly earnings at $32.72, not seasonally adjusted, were up $0.89 or 2.8%, from the March 2018 estimate. The resultant average private sector weekly pay amounted to $1,096.12, up $36.18 or 3.4 percent higher than a year ago. However, DOL warns that due to fluctuating sample responses, private sector earnings and hours estimates can be volatile from month-to-month.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in March was a modest 1.9 percent.
- On March 26, the Bureau of Economic Analysis (BEA) reported that Connecticut's personal income grew by a 3.4 percent annual rate for 2018. Based on this result, Connecticut ranked 42nd in the nation for 2018 income growth. This growth rate was below both the national average of 4.5 percent and the New England region's average rate of 3.9 percent. The percent change in personal income across all states ranged from 6.8 percent in Washington to 2.9 percent in Hawaii.



U.S. Bureau of Economic Analysis

- In the same report, BEA issued preliminary results for personal income growth between the third and fourth quarters of 2018. On this separate measure, Connecticut fared better growing at a seasonally adjusted 5.2 percent rate in the fourth quarter of 2018. Based on this level of growth, Connecticut ranked 22nd in the nation, equal to the U.S. average. It also represented the strongest growth rate in the New England region for the period.
- BEA is scheduled to release state-level personal income results for the first quarter of 2019 on June 25.

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for March 2019 compared with March 2018. Sales of single-family homes fell 4.56 percent, while the median sale price was essentially flat, declining by just 0.24 percent. New listings rose by a very slight 0.42 percent in Connecticut and the median list price fell by 0.70 percent to $250,000 from a year ago. Average days on the market decreased 3.03 percent in March 2019 compared to the same month in the previous year (96 days on average, down from 99 days). Finally, the list to sell price increased slightly to 97.4 percent, compared with 97.2 percent a year ago.

- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

MARCH 2019 | SINGLE FAMILY HOMES

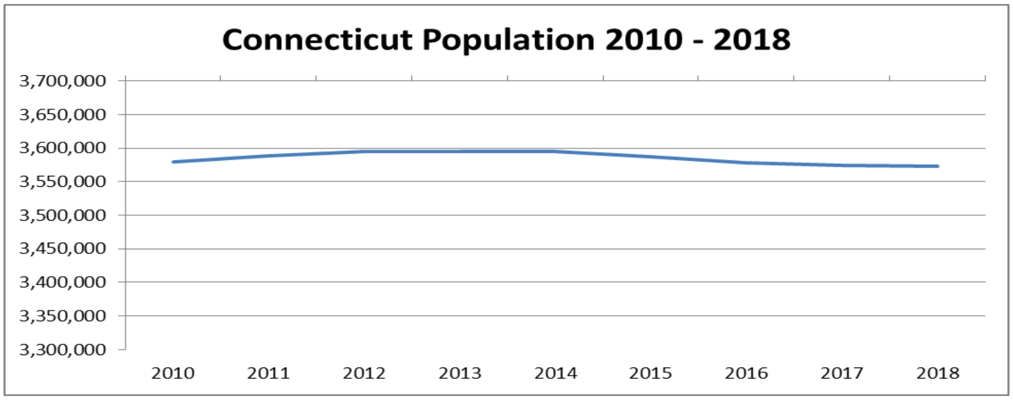
Market	Month to Date			Year to Date		
Summary	March 2019	March 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	5238	5216	0.42% ▲	12630	12851	-1.72% ▼
Sold Listings	2259	2367	-4.56% ▼	6145	6337	-3.03% ▼
Median Listing Price	$250,000	$251,750	-0.7% ▼	$244,900	$250,000	-2.04% ▼
Median Selling Price	$248,000	$248,600	-0.24% ▼	$239,000	$245,000	-2.45% ▼
Median Days on Market	70	73	-4.11% ▼	68	78	-12.82% ▼
Average Listing Price	$361,807	$378,876	-4.51% ▼	$353,302	$383,961	-7.98% ▼
Average Selling Price	$347,340	$364,688	-4.76% ▼	$338,494	$367,475	-7.89% ▼
Average Days on Market	96	99	-3.03% ▼	91	102	-10.78% ▼
List/Sell Price Ratio	97.4%	97.2%	0.17% ▲	97.1%	96.9%	0.18% ▲

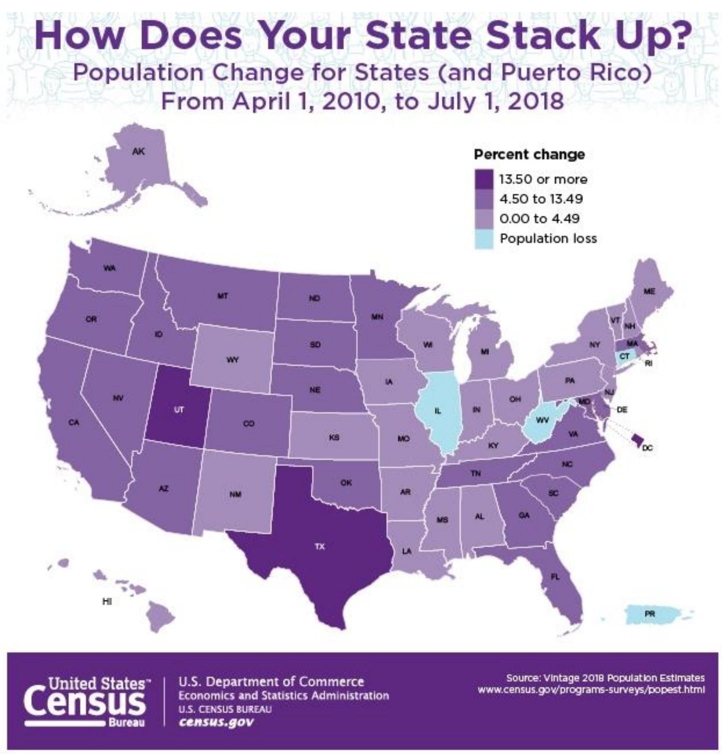
- For the U.S. housing market, existing-home sales retreated in March, following a large jump in February, according to the National Association of Realtors (NAR). March sales were down 4.9 percent from February to a seasonally adjusted annual rate of 5.21 million. All four major U.S. regions saw decreases in sales, with the Midwest experiencing the largest decline last month. Compared with a year ago, U.S. sales were down 5.4 percent (5.51 million in March 2018).

- According to NAR, the median existing-home price for all housing types in March was 259,400, up 3.8 percent from March 2018 ($249,800). March's price increase marks the 85th straight month of year-over-year gains. Total housing inventory at the end of March increased to 1.68 million, up from 1.63 million existing homes available for sale in February and a 2.4 percent increase from 1.64 million a year ago. Unsold inventory is at a 3.9-month supply at the current sales pace, up from 3.6 months in February and up from 3.6 months in March 2018.
- Properties remained on the market for an average of 36 days in March, down from 44 days in February but up from 30 days a year ago. Forty-seven percent of homes sold in March were on the market for less than a month.

Population

- On Dec. 19, the U.S. Bureau of the Census released its population estimates for July 1, 2018. Connecticut's population declined slightly between 2017 and 2018 and now stands at 3,572,665. This represents a decrease of 0.03 percent from the prior year's estimate. Over the longer term, Connecticut's population is smaller than it was eight years ago. While the decline is small (approximately 6,500), Connecticut is one of only three states to lose population since the 2010 Census.
- Connecticut's demographic trends can have an impact on the state's economy. As the baby boom generation continues to retire and leave the workforce, both economic demand and output could be further reduced. In short, Connecticut's lack of population growth remains a constraint to the State's potential for economic expansion.





Stock Market

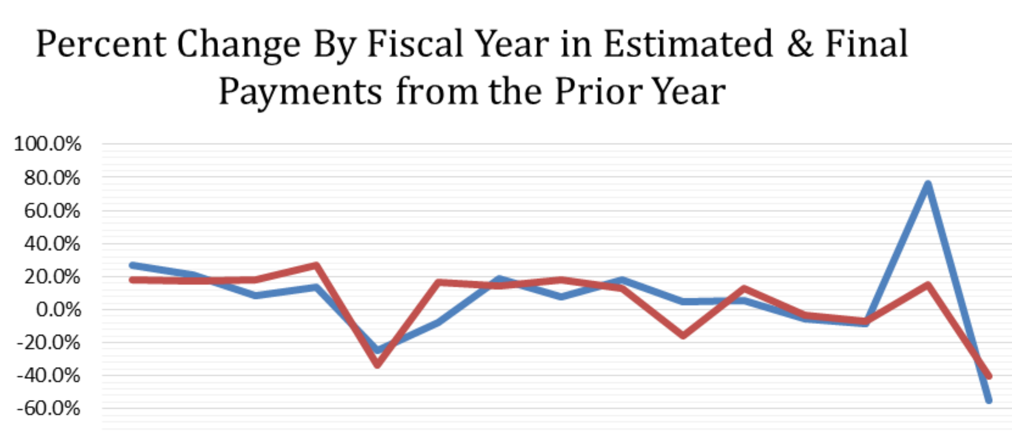
- After significant declines in December and a volatile close to calendar year 2018, the major stock market indices have generally been recovering ground in the early months of 2019. As of this writing the DOW, NASDAQ and S&P 500 were all up 10 percent or more year-to-date, at or near historical highs. Stock market activity for the past year is illustrated on the three charts that follow:

DOW

NASDAQ

S&P 500 INDEX

- The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 35 to 40 percent of total state income tax receipts, but can be an extremely volatile revenue source. For example, both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017.
- In contrast, both categories experienced strong positive growth in FY 2018, partly due to changes in federal tax provisions. FY 2018 year-end results showed estimated payments growing by 76 percent fiscal year-to-date compared with the prior year, representing an increase of over $1.2 billion. Final payments grew by $239 million or 15.3 percent over the same period a year ago.
- State estimated payment collections were down significantly in December 2018 compared with recent years. This is likely due to the change in incentives related to the limits to the SALT deduction for Federal tax purposes. Due to the strict Federal limits, high income taxpayers have little incentive to make payments before year-end.
- Through March, combined collections of estimated and final payments were 51.7



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%	-5.4%	-8.3%	76.0%	-54.7
Final	17.8%	17.0%	18.0%	27.2%	-33.4	16.9%	14.3%	18.2%	12.6%	-15.6	13.0%	-3.3%	-7.2%	15.3%	-40.0

Estimated Final

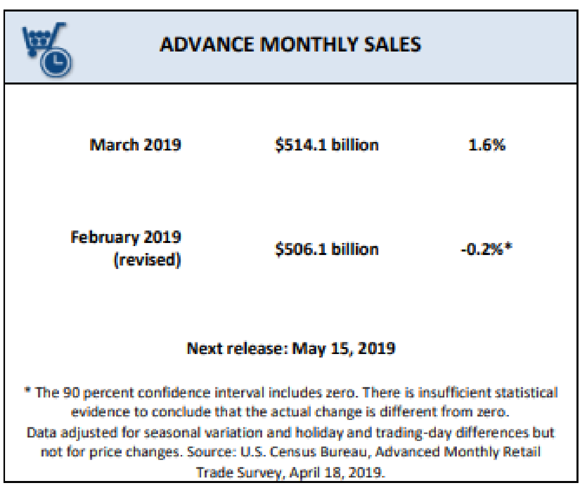
percent lower than the same period a year ago. It should be noted that the rapid growth in estimated payments during FY 2018 began in December and January time period last year, largely due to one-time events. Therefore, it is not surprising to see FY 2019 year-to-date collections falling behind FY 2018's torrid pace.

- The April 30 consensus revenue forecast lowered targets for estimated and final income tax payments in FY 2019. At the same time, taxes in other categories, specifically the new Pass-Through Entity tax on partnerships and S Corporations, is outperforming the budget plan.

Consumer Spending

- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.
- The Commerce Department reported that U.S. advance retail sales increased 1.6 percent in March 2019, a strong rebound from several months of disappointing results dating back to December. The 0.2 percent decline from January to February remained unchanged.

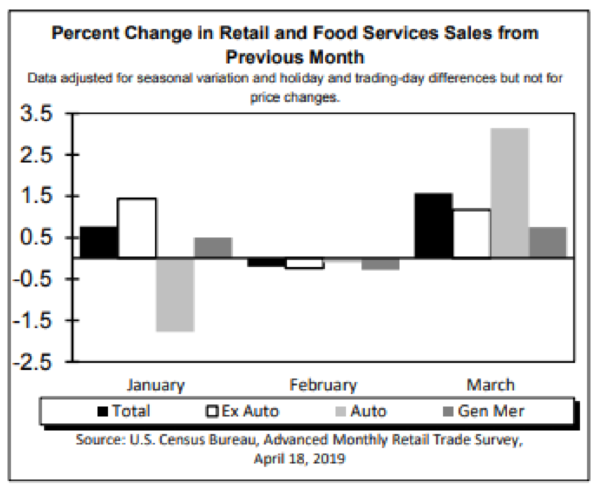
- Categories that led the way in gains for March retail sales included gasoline stations (+3.5%), auto dealers (+3.1%), clothing retailers (+2.0%) and furniture stores (1.7%). Non-store retailers and food & drinking establishments experienced smaller gains in retail sales, while sporting goods & hobby stores declined by 0.3 percent in March.


ADVANCE MONTHLY SALES

March 2019	$514.1 billion	1.6%
February 2019 (revised)	$506.1 billion	-0.2%*

Next release: May 15, 2019

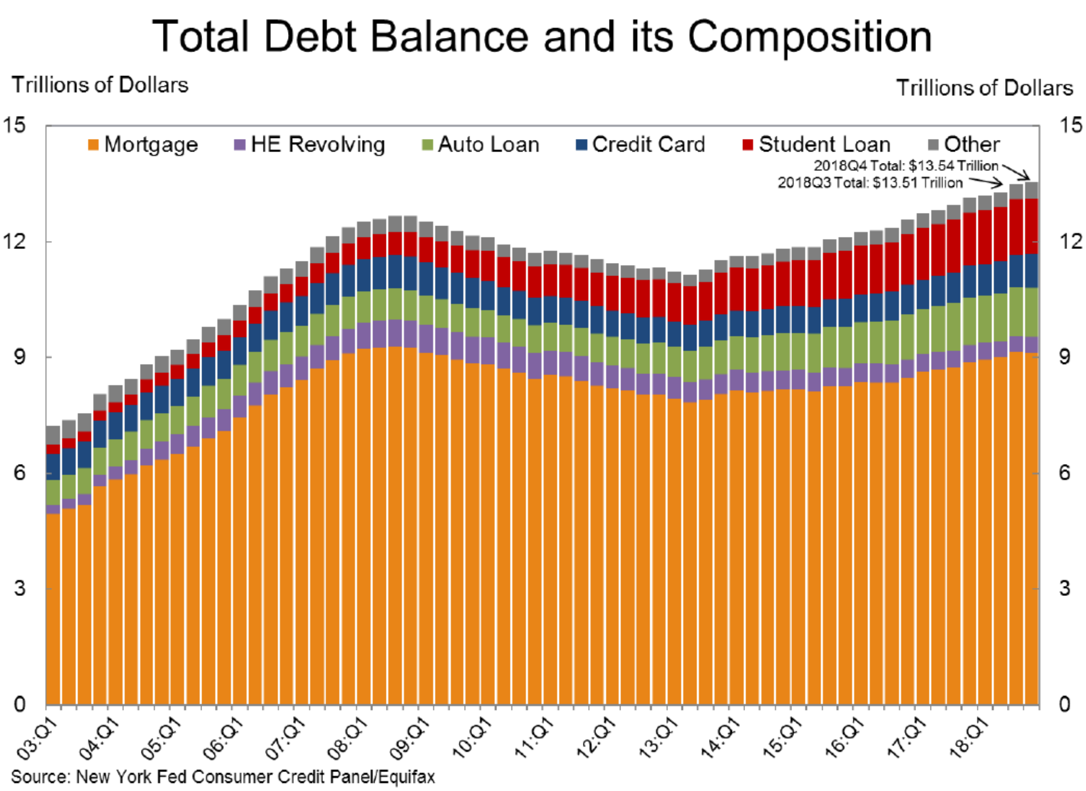
* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, April 18, 2019.



- Analysts noted a healthy national job market and rising confidence levels could be leading consumers to boost their spending.

Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the fourth quarter of 2018. Household debt has now grown in 18 consecutive quarters. As of December 30, 2018, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.54 trillion. This represented an increase of $32 billion (0.2%) from the third quarter of 2018. In addition, overall household debt is now 21.4% above the post-financial-crisis trough (low point) reached during the second quarter of 2013.
- The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.1 trillion during the fourth quarter, essentially unchanged from the third quarter of 2018. At $1.46 trillion, student loans were the second largest category of household debt. Student loan balances grew by $15 billion in the fourth quarter. Balances on home equity lines of credit (HELOC), continuing their downward trend, declined by $10 billion to $412 billion, the lowest level seen in 14 years. Auto loans grew by $9 billion, while credit card balances increased by $26 billion.
- The report noted that the increase in credit card balances is consistent with seasonal patterns but marks the first-time credit card debt re-touched the 2008 peak. Credit card balances now stand at $870 billion.

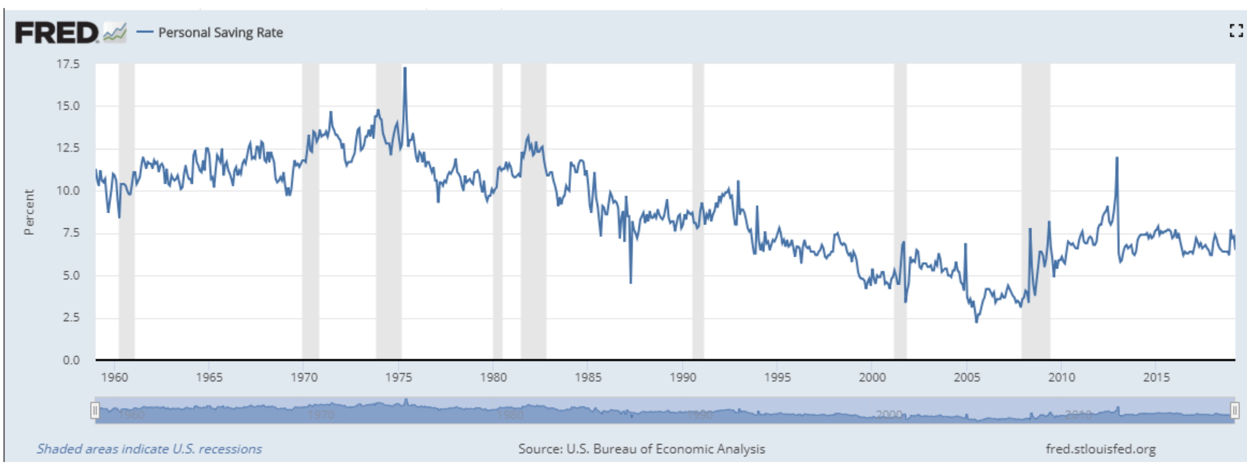


- The Federal Reserve reported that aggregate delinquency rates remained steady in the fourth quarter of 2018. As of December 31, 4.7 percent of outstanding debt was in some stage of delinquency, unchanged from the third quarter. Of the $630 billion of debt that is delinquent, $416 billion is seriously delinquent (at least 90 days late). The flow into 90+ day delinquency for credit card balances has been rising since 2017, while the flow into 90+ day delinquency for auto loan balances has been slowly trending upward since 2012.

- The Federal Reserve Bank's next quarterly debt update is expected in mid-May 2019.

Personal Savings Rate

- In its April 29 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 6.5 percent in March 2019. This represents a step back from February's 7.3 percent rate. The personal savings rate is defined as personal saving as a percentage of disposable personal income.
- Personal income grew only modestly in March, while inflation remained tame. However, BEA reported that personal consumption expenditures (PCE) grew faster than disposable personal income, which resulted in the decrease in the savings rate.



- The personal savings rate remains low by historical standards. A number of economists see the general decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. In recent years, wage gains have been concentrated on the upper end of the income scale. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

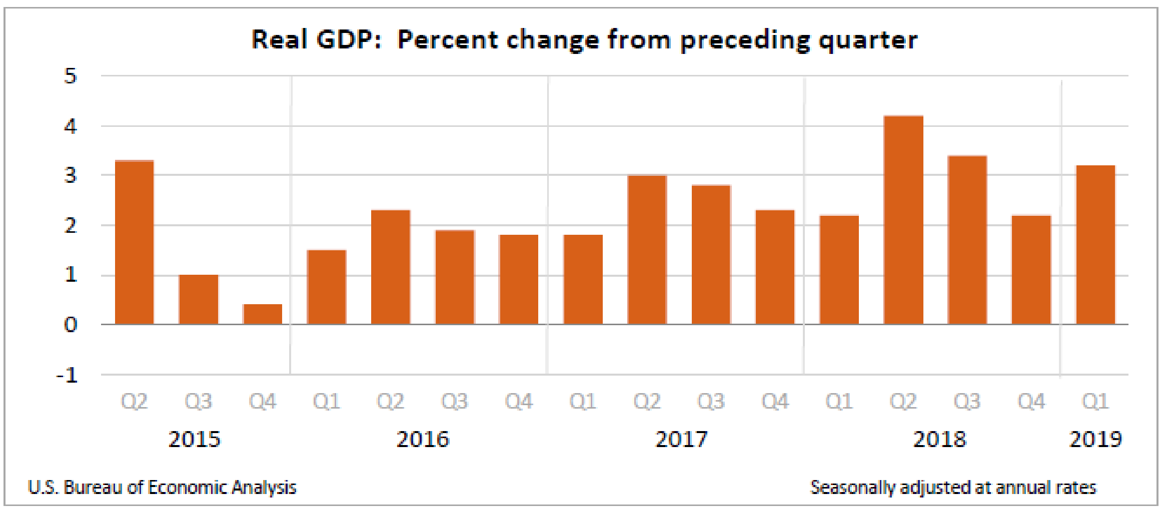
Consumer Confidence

- The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.

- The Conference Board reported that the Consumer Confidence Index partially rebounded in April, after declining in March. However, confidence is still below levels seen last fall. The Index now stands at 129.2 up from 124.2 in March.
- The board noted that, overall, consumers expect the economy to continue growing at a solid pace into the summer months. These strong confidence levels should continue to support consumer spending in the near-term

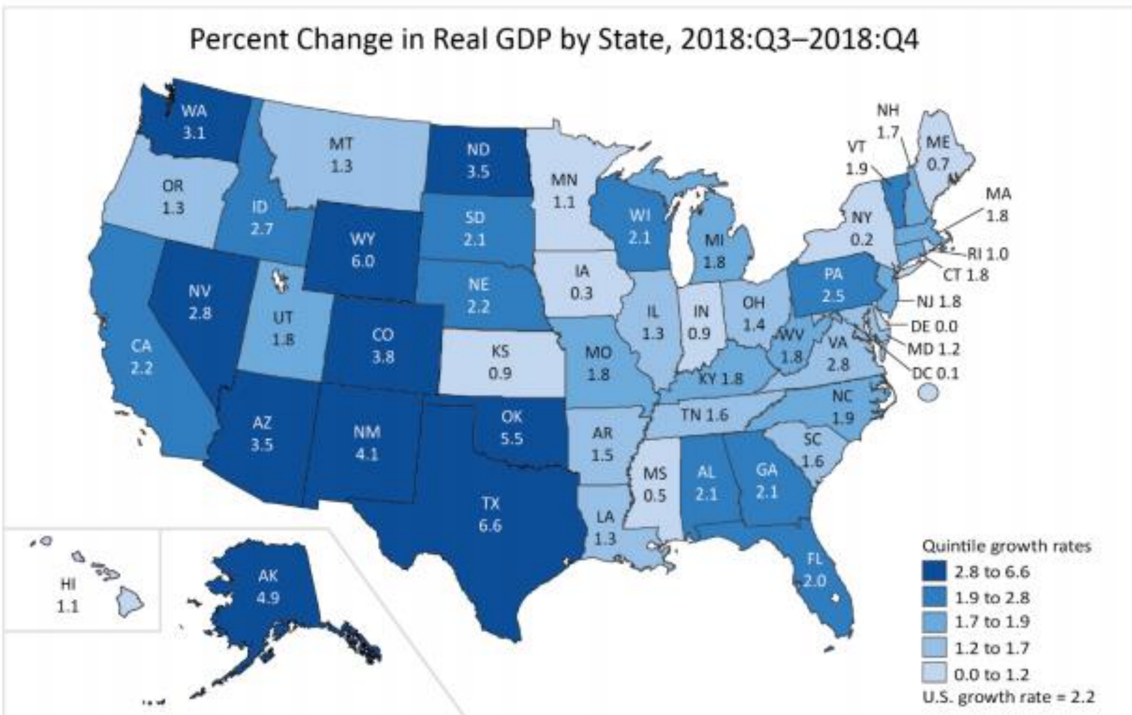
<u>Business and Economic Growth</u>

- According to an April 26 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 3.2 percent in the first quarter of 2019. This is the initial estimate for the quarter based and it will be revised by BEA as more complete information becomes available. This represents a rebound from the slower 2.2 percent growth in the fourth quarter of 2018.



- BEA reported that the increase in real GDP in the first quarter reflected positive contributions from consumer spending, private inventory investment, exports, state and local government spending, and nonresidential (i.e., business) fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased in the quarter. These contributions were partly offset by a decrease in residential investment.
- The initial first quarter 2019 GDP results were better than expected. Economists polled by Reuters had forecast GDP increasing at a 2.0 percent rate in the first three months of the year. A similar poll of economists by Dow Jones predicted GDP growth of 2.5 percent. This GDP report helped mitigate fears of a global slowdown pushing the U.S. closer to a recession in 2019.

- While this is undoubtedly good news, some analysts warned the growth could be due to temporary factors (such as a smaller trade deficit and an accumulation of unsold merchandise) that may be reversed in future quarters.
- In a May 1 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the fourth quarter of 2018. Connecticut experienced a seasonally adjusted annual growth rate of 1.8 percent, which ranked 27th in the nation overall. This growth rate was below the national average of 2.2 percent, but slightly above to the New England regional average of 1.7 percent. The percent change in real GDP in the fourth quarter ranged from 6.6 percent in Texas to 0.0 percent in Delaware.



U.S. Bureau of Economic Analysis

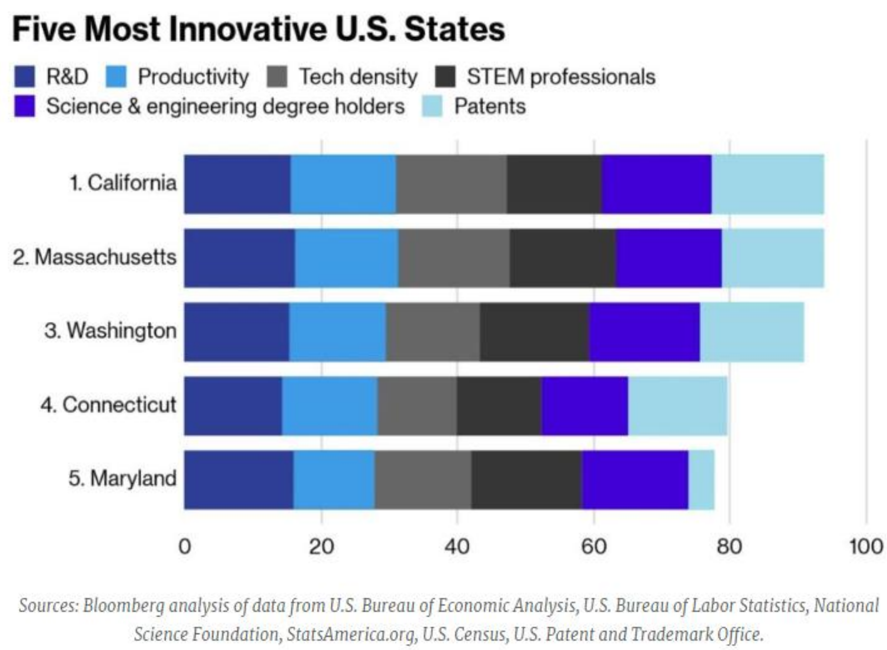
- In the same report, BEA provided the full annual GDP results by state for 2018. On this measure, Connecticut fared worse, lagging both the national and New England regional average levels of growth. Connecticut's Real GDP grew by 1.0 percent in 2018, which ranked 44th in the nation.

Bloomberg's U.S. Innovation Index – Connecticut Ranked 4th

- On April 16 Bloomberg published its 2019 U.S. State Innovation Index. Connecticut was ranked the fourth most innovative state economy in the nation, up from seventh place in 2016.
- The innovation index is based on six equally-weighted metrics: research and development intensity; productivity; clusters of companies in technology; jobs in

science, technology, engineering and mathematics (STEM); proportion of the population with degrees in science and engineering; and patent activity.

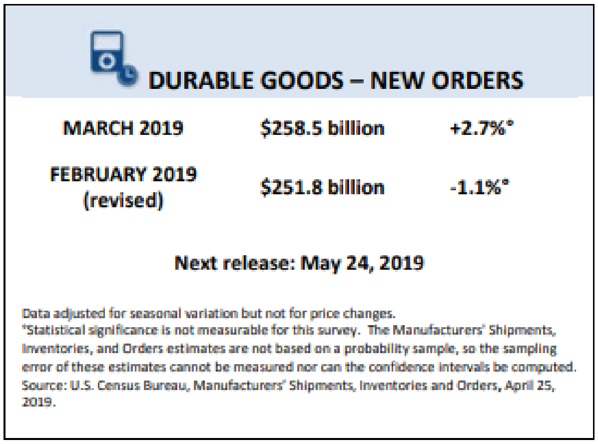
- Connecticut's overall score was 79.7, behind California, Massachusetts and Washington. On the innovation index measures, Connecticut showed strength across all six categories. Connecticut ranked seventh in patent activity and was ranked eighth in the nation in research and development (R&D) intensity, productivity and technology company density. On the last two measures, Connecticut ranked 12th in science and engineering degree holders and 13th in STEM-related jobs.

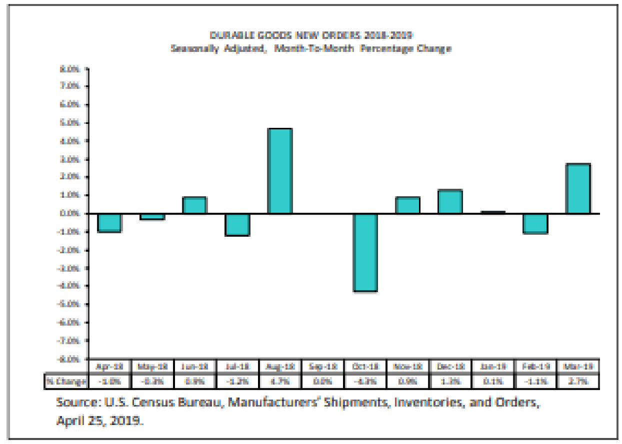


- The full article can be found at the following link: https://www.bloomberg.com/news/articles/2019-04-16/california-is-no-1-massachusetts-no-2-in-u-s-innovation-rank

Durable Goods

- According to an April 25 report by the U.S. Department of Commerce, new orders for manufactured durable goods rose $6.8 billion in January or 2.8 percent to $258.5 billion. This represented the biggest increase in durable goods orders in 8 months. This growth followed a 1.1 percent increase in February. Durable goods orders have now risen in four of the past five consecutive months.





- Transportation equipment, up four of the last five months, drove the increase, $6.1 billion or 7.0 percent to $93.8 billion.
- So-called core capital goods orders increased a healthy 1.3 percent in March. This category includes non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment.
- This growth was largely driven by an increase in demand for computers and electronic products. The increase in business spending may be a sign of more stable growth to come for the manufacturing sector. Analysts have noted recent weakness in this area has been caused by the fading stimulus from a $1.5 trillion Federal tax cuts and supply chain disruptions caused by the U.S. trade war with China.

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